

CITY OF ASHEVILLE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2008

TABLE OF CONTENTS

INTRODUCTORY SECTION (Unaudited):	<u>Page(s)</u>
GFOA Certificate of Achievement	ii
Table of Contents	iii – vi
Organizational Chart	vii
City Mission Statement and Statement of Values	viii
Letter of Transmittal	ix - xiii
 FINANCIAL SECTION:	
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 14
 Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets - Exhibit A	15
Statement of Activities - Exhibit B	16 - 17
Fund Financial Statements:	
Balance Sheet - Governmental Funds - Exhibit C	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Exhibit D	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Exhibit E	20
Statement of Revenues, Expenditures, and Changes in Fund Balance - Annual Budget and Actual - General Fund - Exhibit F	21
Statement of Fund Net Assets - Proprietary Funds - Exhibit G	22
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds - Exhibit H	23
Statement of Cash Flows - Proprietary Funds - Exhibit I	24 - 25
Statement of Fiduciary Assets and Liabilities - Agency Fund - Exhibit J	26
Notes to the Basic Financial Statements	27 - 57

TABLE OF CONTENTS

Required Supplementary Information:	<u>Page(s)</u>
Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress	58
Law Enforcement Officers' Special Separation Allowance - Schedule of Employer Contributions	59
 Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet - Non-Major Governmental Funds	60 - 61
Combining Statement of Revenue, Expenditures and Changes in Fund Balances(Deficit) - Non-Major Governmental Funds	62 - 63
Schedules of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual:	
Grant Programs Special Revenue Fund	64 - 65
Community Development Special Revenue Fund	66
Section 108 Rehabilitation Special Revenue Fund	67
Affordable Home Ownership Special Revenue Fund	68 - 69
Housing Partnership Special Revenue Fund	70
Federal Capital Projects Fund	71
General Capital Projects Fund	72 - 73
Street/Sidewalk and Storm Drainage Improvement Capital Projects Fund	74
Sewer Capital Projects Fund	75
Schedules of Revenue and Expenditures - Budget and Actual (Non-GAAP) - Proprietary Funds: Major Enterprise Fund	
Water Resources Fund	76
Water Bond Capital Projects Fund	77
Water Major Capital Projects Fund	78
Combining Statement of Net Assets - Non-major Enterprise Funds	79 - 82
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets - Non-major Enterprise Funds	83 - 84
Combining Statement of Cash Flows - Non-major Enterprise Funds	85 - 88

TABLE OF CONTENTS

Schedules of Revenue and Expenditures - Budget and Actual (Non-GAAP) -	<u>Page(s)</u>
Proprietary Funds: Non-major Enterprise Funds	
Civic Center Fund	89
Civic Center Capital Projects Fund	90
Parking Services Fund	91
Parking Services Capital Projects Fund	92
Festivals Fund	93
Mass Transit Fund	94
Mass Transit Capital Projects Fund	95
Stormwater Fund	96
Golf Course Fund	97
Golf Course Capital Projects Fund	98
Internal Service Fund - Insurance Fund	99
Statement of Changes in Assets and Liabilities - Agency Fund	100
Other Supplemental Information:	
Schedule of Ad Valorem Taxes Receivable	101
Analysis of Current Tax Levy and Secondary Market Disclosures - City-Wide Levy	102
STATISTICAL SECTION (Unaudited):	
Net Assets by Component	103 - 105
Fund Balance of Governmental Funds	106 - 107
General Governmental Tax Revenues by Source	108
Assessed Value and Estimated Actual Values of Taxable Property	109
Property Tax Rates	110
Principal Property Taxpayers	111
Property Tax Levies and Collections	112
Ratios of Outstanding Debt by Type	113
Ratios of General Bonded Debt Outstanding	114
Direct and Overlapping Governmental Activities Debt	115
Legal Debt Margin Information	116
Demographic and Economic Statistics	117
Principal Employers	118
Full - Time Equivalent City Government Employees by Function	119
Operating Indicators by Function	120
Capital Asset Statistics by Function	121

TABLE OF CONTENTS

Statistical Section (Unaudited):	<u>Page(s)</u>
Water System Statistics	122 - 123
Water System Net Income Projections and Income Available for Debt Service	124
Principal Water Customers	125
 COMPLIANCE SECTION:	
Schedule of Expenditures of Federal and State Awards	126 - 128
Schedule of Revenues and Expenditures - High Unit Cost Grant Project Number DEH0930	129
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	130 - 131
Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act	132 - 133
Report on Compliance with Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance with Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act	134 - 135
Schedule of Findings and Questioned Costs	136 - 140
Corrective Action Plan	141
Summary of Schedule of Prior Year Audit Findings	142



City of Asheville, NC

Finance Department

December 30, 2008

To the Honorable Mayor,
Members of the Governing Council,
and Citizens of the City of Asheville, North Carolina

State law requires that every general-purpose local government publish a complete set of audited financial statements within six months of the close of each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2008.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Dixon Hughes PLLC, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Asheville's ("the City") statements for the year ended June 30, 2008. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis ("MD&A") immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of Government

The City, incorporated in 1797, is located in the western part of the state, which is considered to be the top growth area in the state and one of the top growth areas in the country. Asheville currently occupies a land area of 43.64 square miles and serves a population of 75,948. The City is the county seat of Buncombe County, the largest city in Western North Carolina and tenth largest city in the State. Asheville is nestled between the Blue Ridge and Great Smoky Mountains and located astride the French Broad and Swannanoa Rivers. The City is surrounded by lush mountains, many with elevations above 5,000 feet. Asheville's natural and architectural beauty, moderate climate, strong job market and outstanding educational and health care facilities make it one of the most attractive locations in the United States. Asheville is consistently ranked high among the best places to live, work, and retire. The City's long-range planning is directed toward preserving this area's high quality of life, so that it shall remain one of the "best places."

The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

The City operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council ("Council") consisting of the mayor and six other members. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three council members elected every two years. The mayor is elected to serve a four-year term. The Council is responsible for adopting the budget and appointing the City Manager, City Attorney and City Clerk. The City Manager is responsible for implementing Council policies, City ordinances, and managing daily operations and appointing department directors.

The City provides a full range of services, including police and fire protection; the construction and maintenance of streets, and other infrastructure; solid waste services and water service; and recreational activities and cultural events. The financial reporting entity includes all the funds and account groups of the City of Asheville (primary government), as well as all of its component units. Component units are legally separate entities for which the government is financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations and, as such, are included in the reporting entity. The Asheville Public Financing Corporation and the Asheville Claims Corporation are reported as blended component units, and, as such, are not presented in the Basic Financial Statements. The Asheville Alcoholic Control Board is reported as a discretely presented component unit and is presented in a separate column in the Basic Financial Statements to emphasize that it is legally separate from the primary government and to distinguish its financial position, results of operations and cash flows from that of the primary government.

In government, much more than in private business, the budget is an integral part of a unit's accounting system and daily operations. The North Carolina General Statutes require all governmental units to adopt a balanced budget by July 1 of each year. The City's budget ordinance, passed by Council, establishes a legal limit on spending authorizations. In general, the City's operating budget remains in affect for one year. However, capital projects funds and grant funds are budgeted, as permitted by statute, for the life of each individual project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by fund or project total. For internal management purposes, the budget is detailed and compared to expenditures and encumbrances by line item within each department or project. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary controls. Encumbered amounts lapse at year-end. However, encumbrances are reappropriated in the following year's budget. Budgetary control is also facilitated by the use of an automated employee position classification system, which requires that every permanent position be budgeted.

Local economy

The City is the regional center of manufacturing, transportation, health care, banking, professional services and shopping. The economy is diverse, with strong representation in manufacturing, distribution, health care, retail trade and tourism.

In addition to being an important indicator of overall local economic health, Buncombe County retail sales activity also directly impacts the City's general fund budget through sales tax receipts. Retail sales countywide have shown strong growth since the recession of 2001-2002. However, with slowing economic conditions over the last year, retail sales have been impacted. Buncombe County retail sales declined 3.7% from FY2007 to FY2008. Of the \$3.3 billion in retail sales recorded in Buncombe County during FY 2007, \$2.47 billion or 75% of those sales occurred within the City of Asheville. Among the eleven largest cities in North Carolina, Asheville had the highest level of retail sales per resident in FY 2007. This data reflects Asheville's position as the regional economic center for Western North

Carolina. Asheville's high level of retail sales per resident is also likely associated with Asheville's status as a tourist destination.

Asheville's setting in the heart of a vast and beautiful recreational area has made tourism an important part of the local economy. The most recent data from the N.C. Department of Commerce indicate that domestic tourism in Buncombe County generated an economic impact of \$709.38 million in 2007, an increase of 9.9% over 2006. Buncombe County ranks 5th in travel impact among the state's 100 counties. Approximately 9,300 jobs in Buncombe County are directly linked to travel and tourism. Growth in hotel/motel sales is a good indicator of the status of the local tourist economy. Hotel/motel sales increased 7.7% between 2006 and 2007.

The unemployment rate is a critical indicator of relative strength in the economy. Buncombe County's unemployment rate remained flat from FY2006 to FY2007 but has increased as a result of the declining economic conditions. As of September 2008, the county's unemployment rate was 5.1%. Local unemployment rates are below both the statewide (7.0%) and national (6.1%) unemployment rates.

Between 2001 and 2007, the total employment in Buncombe County increased by 10,652 jobs or 10.1%. In 2007, average Buncombe County employment increased by 3.6%, reaching an all-time high of 116,030.

The County's leading industry in terms of employment is health care and social assistance, which employed 18,955 people in 2007. Over the last 5 years, health services added twice as many jobs as any other sector. Other leading industry sectors include retail trade, manufacturing, accommodation and food services. Together these four sectors accounted for approximately 37% of all Buncombe County jobs in 2007. Despite the fact that it remains the fourth largest industry sector in Buncombe County, the manufacturing sector has experienced a significant decline in recent years. Over the last five years, local manufacturing employment has declined 9%.

According to the U.S. Bureau of Economic Analysis, in 2006 Buncombe County had a per capita personal income (PCPI) of \$31,345. This PCPI was 97 percent of the state average, \$32,247, and 85 percent of the national average, \$36,714. The 2006 PCPI reflected an increase of 5.7 percent from 2005.

Long-Term Financial Planning

The Capital Improvement Program (CIP) is a six-year financing plan for infrastructure improvements, facility construction and improvement, and equipment acquisition. The City's emphasis on long-range capital improvement planning focuses attention on current and future needs of the community and on balancing those needs with the City's fiscal resources.

The CIP is updated annually based on input from Council, the public and City staff. The FY 2008 CIP was influenced by a number of other planning processes, including the City's long-range Strategic Operating Plan, the Unified Development Ordinance, the Parks & Recreation Master Plan, the Pedestrian Thoroughfare Plan, and the 1998 Parking Study.

In order to be included in the CIP, a capital item or construction project must have a useful life of more than one year and an initial cost of at least \$25,000. All capital items not meeting these criteria are included in the annual operating budget as capital outlay. The one exception to this rule is vehicles. All vehicle purchases, regardless of price, are included in the CIP.

The General Capital Reserve Fund provides funding for all general government capital needs. FY 2008 funding was provided by a \$9,706,102 pay-as-you-go contribution from the General Fund, \$3,907,950 in

debt proceeds, \$80,000 in funding from the N.C. Department of Transportation (NCDOT), and \$3,767,500 from a fund balance appropriation.

CIP items and projects in the Water Resources Operating & Capital Improvement Funds were funded with utility revenues generated by the Water Resources Operating Fund and the capital maintenance fee. In addition, the City issued approximately \$40.0 million in Water Revenue Bonds during FY 2008 for major water system improvement projects. Between the bond funding and pay-as-you-go funding, over \$47.0 million in Water capital improvements were budgeted in FY 2008. This total included funding for mandatory capital improvement projects, an aggressive meter change-out program, rolling stock, and small capital equipment.

Relevant Financial Policies

As a recipient of federal and state assistance, the City is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management and the Finance Department staff of the City. As a part of the City's single audit requirements, tests are made to determine the adequacy of internal controls as well as to determine that the City has complied with applicable laws and regulations.

The Governmental Accounting Standards Board issued Statement No. 45 in June of 2004. This Statement establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expenses and related liabilities, note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

This statement will impact the City to the extent the City provides health insurance benefits to retirees. When implemented, Statement 45 will provide those who use government financial reports with improved information about the cost of providing post-employment benefits, the commitments that governments have made related to those benefits, and the extent to which those commitments have been funded.

Implementation of GASB Statement No. 45 will be required no later than the fiscal year ending June 30, 2009. An actuarial firm has prepared preliminary estimates of the financial impacts this pronouncement might have. Management will use the intervening time to review the nature of the commitment to current and future retirees, the potential magnitude of the liability and expense, and to evaluate alternatives for managing this liability and expense upon the required implementation date.

Insurance Programs

The City maintains "insurance programs" for certain general liability and casualty risks, fringe benefits and workers compensation obligations. Revenues and expenses for this program are recorded in the Risk and Benefits Management Division of the General Fund. For all of its self-insured retention programs, the City retains the services of outside third party administrators for the professional management and adjustments of claims. The City is protected by the placement of a \$15,000,000 excess-only liability program across the liability lines under the contract. The City also insures its real and property holdings, including its dams for a total of \$240,000,000 in assets. For the City's self-insured Workers Compensation and Employer Liability, the City retains out-of-pocket losses of \$300,000 on specific claims and an aggregate loss of \$3,600,000 over a three-year period. The City carries a \$3,000,000 specific and aggregate excess over these deductibles, with the aggregate excess attachment 75 percent of the annual loss over a three-year period.

Awards and Acknowledgements

The Governmental Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2007. This was the twenty-eighth time that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2007. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

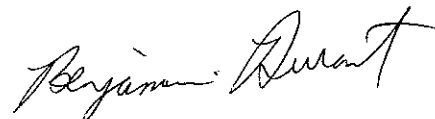
We recognize the City's responsibility for the contents of this report and would like to express our appreciation for the cooperation and assistance of our independent auditors, Dixon Hughes PLLC, in its preparation. Also, this report would not have been possible without the efficient and dedicated service of the entire staff of the City's Accounting Division as well as the cooperation of all other departments and divisions of the City. We would also like to thank the members of Council for their interest and support.

As required by North Carolina General Statute 159-34, a copy of this report will be filed with the Secretary of the North Carolina Local Government Commission. In addition, a copy will be sent to the City Clerk to be available for public inspection.

Respectfully submitted,



Gary W. Jackson
City Manager



Benjamin C. Durant, III
Chief Financial Officer